

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended September 30, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Dexter District Library	County Washtenaw
Audit Date September 30, 2006	Opinion Date October 27, 2006	Date Accountant Report Submitted to State: December 27, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686			
City Bay City	State MI	Zip 48707	
Accountant Signature Campbell, Kusterer & Co., P.C.			

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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FAX (989) 894-5494**INDEPENDENT AUDITOR'S REPORT**

October 27, 2006

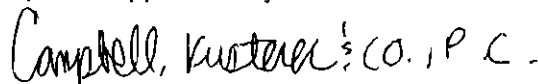
To the Library Board
Dexter District Library
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Dexter District Library, Washtenaw County, Michigan as of and for the year ended September 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dexter District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Dexter District Library, Washtenaw County, Michigan as of September 30, 2006, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2006

This section of the Library's annual financial report presents our discussion and analysis of the Library's financial performance during the fiscal year ended September 30, 2006. Please read it in conjunction with the financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Our financial status dramatically increased during the course of the year. In November, 2005, the community passed two new tax issues to support the Library. The community approved a 20-year bond issue in the amount of \$7,835,000.00 for the purpose of constructing a new Library building. The community also approved an additional operational millage of .7 mills for a period of six years. As a result, the Library now operates a General Fund, Capital Projects Fund, and a Debt Service Fund.

Total assets of September 30, 2006 were \$9,675,885.28, of which \$1,634,737.67 represented capital assets net of depreciation.

Overall general operations revenues were \$1,935,411.61. Overall operational expenses were \$1,988,678.86.

The tax base increased by 4.7%.

Voters in the Library service area authorized the Library to incur \$7,835,000.00 in debt (total 20-year repayment with interest \$11,470,240.89) during the year. This money will fund construction of a new Library facility. The Library purchased significant capital assets during the reporting year. These included three residential properties, located within the Central Business District in the Village of Dexter.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Library and the notes to the financial statements.

The first two statements are entity-wide financial statements and present both long and short-term information about the Library's overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Library in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data. Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the entity as a whole using accounting methods used by private companies. The statement of net assets includes all of the Library's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when paid or received.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the Library's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the Library's net assets are an indicator of whether financial position is improving or deteriorating.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2006

ENTITY-WIDE FINANCIAL STATEMENTS (continued)

To assess overall health of the Library consideration must also be given to other factors such as tax base changes, facility conditions and personnel changes.

All of the Library's activities are reported as governmental activities. At this time, the Library has a general fund, capital projects fund, and a debt service fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Library's funds, focusing on significant (major) funds not the Library as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Library Board may also create funds for specific purposes. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Library has the following types of funds:

Governmental Fund: All of the Library's daily business and service activities are included in the general fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information.

Capital Projects Fund: Construction of a new Library building is funded from this account. These funds are presented on the modified accrual basis, which is designed to show short-term financial information.

Debt Service Fund: Bonds issued to fund the construction project are repaid from this account. These funds are presented on the modified accrual basis, which is designed to show short-term financial information.

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

The Library's combined net assets for the year ended September 30, 2006, were \$2,003,340.70. This represents a net appreciation of assets of 166% from the previous year. The bulk of the increase was due to the purchase of three residential properties located in the Central Business District of the Village of Dexter for the construction of a new Library facility. Original purchase values were estimated in cases where the original purchase price for an individual assets was not available.

Net assets for the Library increased by \$1,248,717.02 during the year ending September 30, 2006.

FINANCIAL ANALYSIS OF THE LIBRARY'S FUNDS

General Fund: This fund is used to record all the Library's financial activities not required to be recorded in a separate fund. The major source of revenue for this fund comes from the Library District's tax base. Additional sources of revenue in the General Fund come from State aid, local penal fines, fees for in-house services such as copying, overdue fines, grants, interest income and gifts.

Capital Projects Fund: This fund is used to record all the Library's financial activities related to the design and construction of a new Library building. The major source of revenue for this fund came from the voter approve issuance of unlimited tax general obligation bonds. Additional sources of revenue in the Capital Projects Fund included public gifts and earned interest.

Debt Service Fund: This fund is used to record all the Library's financial activities associated with the repayment of bonded debt. The major source of revenue for this fund comes from the Library District's tax base. Additional sources of revenue in the Debt Service Fund come from earned interest on invested funds.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended September 30, 2006

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets: The Library purchased three residential properties, located in the Central Business District within the Village of Dexter. This land acquisition will provide the Library with a location to construct a new Library facility.

Long-Term Debt: The Dexter District Library issued \$7,835,000.00 in unlimited tax general obligation bonds at a 4.04068% true interest cost and a total 20-year total repayment of \$11,470,240.89.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

On November 8, 2005, the Library placed two ballot issues before the voters residing in the Library's service district. These issues included a 20-year bond issue of \$7.835 million for construction of a new facility and a second ballot issue of 0.7 mills for six years for increased operating funds. Voters approved both issues. The Library levied both issues on the December 2005 taxes. Subsequent to the election, the Library finalized the purchase of three residential properties, applied for conditional rezoning, worked with its architectural firm to design the new facility and began the planning and zoning process. The new facility is planned to be 25,000 square feet. Construction is expected to begin in spring 2007.

CONTACTING THE LIBRARY'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Library's finances and to demonstrate the Library's accountability for the revenues it receives. If you have any questions regarding this report, please contact Paul McCann, Dexter District Library Director at 8040 Fourth Street, Dexter, Michigan, 48130, phone 734-426-4477 between the hours of 9:00 AM and 5:00 PM Monday through Friday.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
September 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	426 828 25
Investments	7 614 269 36
Petty cash	<u>50 00</u>
Total Current Assets	<u>8 041 147 61</u>
NON-CURRENT ASSETS:	
Capital Assets	1 762 223 27
Less: Accumulated Depreciation	<u>(127 485 60)</u>
Total Non-current Assets	<u>1 634 737 67</u>
TOTAL ASSETS	<u><u>9 675 885 28</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NON-CURRENT LIABILITIES:	
Bonds payable	7 660 000 00
Compensated absences payable	<u>12 544 58</u>
Total Non-current Liabilities	<u>7 672 544 58</u>
Total Liabilities	<u>7 672 544 58</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	(6 025 262 33)
Reserved for capital projects	6 704 445 88
Reserved for debt service	239 797 68
Unrestricted	<u>1 084 359 47</u>
Total Net Assets	<u>2 003 340 70</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>9 675 885 28</u></u>

The accompanying notes are an integral part of these financial statements.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended September 30, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Library	480 899 97	-	(480 899 97)
Interest on long-term debt	<u>128 486 52</u>	<u>-</u>	<u>(128 486 52)</u>
Total Governmental Activities	<u>609 386 49</u>	<u>-</u>	<u>(609 386 49)</u>
General Revenues:			
Property taxes			1 647 396 95
State aid			11 669 28
Penal fines			36 081 00
Interest			207 342 85
Miscellaneous			32 921 53
Discount on bond sale			<u>(77 308 10)</u>
Total General Revenues			<u>1 858 103 51</u>
Change in net assets			1 248 717 02
Net assets, beginning of year			<u>754 623 68</u>
Net Assets, End of Year			<u>2 003 340 70</u>

The accompanying notes are an integral part of these financial statements.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	187 030 57	-	239 797 68	426 828 25
Investments	909 823 48	6 704 445 88	-	7 614 269 36
Petty cash	<u>50 00</u>	<u>-</u>	<u>-</u>	<u>50 00</u>
Total Assets	<u>1 096 904 05</u>	<u>6 704 445 88</u>	<u>239 797 68</u>	<u>8 041 147 61</u>
<u>Liabilities and Fund Equity</u>				
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:				
Fund balances:				
Reserved	-	6 704 445 88	239 797 68	6 944 243 56
Unreserved:				
Undesignated	<u>1 096 904 05</u>	<u>-</u>	<u>-</u>	<u>1 096 904 05</u>
Total fund equity	<u>1 096 904 05</u>	<u>6 704 445 88</u>	<u>239 797 68</u>	<u>8 041 147 61</u>
Total Liabilities and Fund Equity	<u>1 096 904 05</u>	<u>6 704 445 88</u>	<u>239 797 68</u>	<u>8 041 147 61</u>

The accompanying notes are an integral part of these financial statements.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
September 30, 2006

TOTAL FUND BALANCE – GOVERNMENTAL FUND	8 041 147 61
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	1 762 223 27
Accumulated depreciation	(127 485 60)
Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds	
Bonds payable	(7 660 000 00)
Compensated absences payable	<u>(12 544 58)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>2 003 340 70</u></u>

The accompanying notes are an integral part of these financial statements.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND

Year ended September 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:				
Property taxes	1 110 863 21	-	536 533 74	1 647 396 95
State aid	11 669 28	-	-	11 669 28
Penal fines	36 081 00	-	-	36 081 00
Interest	35 991 14	164 601 25	6 750 46	207 342 85
Miscellaneous	<u>32 921 53</u>	<u>-</u>	<u>-</u>	<u>32 921 53</u>
Total revenues	<u>1 227 526 16</u>	<u>164 601 25</u>	<u>543 284 20</u>	<u>1 935 411 61</u>
Expenditures:				
Culture and recreation:				
Library:				
Salaries	216 957 66	-	-	216 957 66
Employee benefits	25 504 99	-	-	25 504 99
Payroll taxes	16 597 27	-	-	16 597 27
Supplies	11 680 38	-	-	11 680 38
Books and materials	71 433 33	-	-	71 433 33
Utilities	10 530 26	-	-	10 530 26
Insurance	8 074 00	-	-	8 074 00
Professional services	42 087 78	-	-	42 087 78
Cooperative fees	25 500 87	-	-	25 500 87
Repairs and maintenance	4 987 88	-	-	4 987 88
Miscellaneous	33 990 65	-	-	33 990 65
Capital outlay	-	1 217 847 27	-	1 217 847 27
Debt service	<u>-</u>	<u>-</u>	<u>303 486 52</u>	<u>303 486 52</u>
Total Expenditures	<u>467 345 07</u>	<u>1 217 847 27</u>	<u>303 486 52</u>	<u>1 988 678 86</u>
Excess (deficiency) of revenues over expenditures	760 181 09	(1 053 246 02)	239 797 68	(53 267 25)
Other financing sources (uses):				
Bond proceeds	-	7 835 000 00	-	7 835 000 00
Discount on bond sale	<u>-</u>	<u>(77 308 10)</u>	<u>-</u>	<u>(77 308 10)</u>
Total other financing sources (uses)	<u>-</u>	<u>7 757 691 90</u>	<u>-</u>	<u>7 757 691 90</u>
Excess of revenues and other sources over expenditures and other uses	760 181 09	6 704 445 88	239 797 68	7 704 424 65
Fund balance, October 1	<u>336 722 96</u>	<u>-</u>	<u>-</u>	<u>336 722 96</u>
Fund Balance, September 30	<u>1 096 904 05</u>	<u>6 704 445 88</u>	<u>239 797 68</u>	<u>8 041 147 61</u>

The accompanying notes are an integral part of these financial statements.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
Year ended September 30, 2006

NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUND 7 704 424 65

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(12 505 00)
Capital Outlay	1 217 847 27

Increase in non-current liability for compensated absences payable is an expense in the
statement of activities but is not an expenditure in the governmental funds (1 049 90)

Receipt of debt proceeds is a financing source in the governmental funds, the receipt
does not have an effect in the statement of activities but does increase the debt
balance in the statement of net assets

Bond proceeds	(7 835 000 00)
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Repayment of debt principal is an expenditure in the governmental funds, the repayment
does not have an effect in the statement of activities but does reduce the debt
balance in the statement of net assets

Principal payments on long-term debt	<u>175 000 00</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>1 248 717 02</u></u>
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The accompanying notes are an integral part of these financial statements.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Dexter District Library, Washtenaw County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Library contain all the Library funds that are controlled by or dependent on the Library's executive or legislative branches.

The reporting entity is the Dexter District Library. The Library is governed by an elected Library Board. As required by generally accepted accounting principles, these financial statements present the Library as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Library's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to record the operations of the Library which pertain to maintaining and operating the Library. Included are all transactions related to the approved current operating budget.

Capital Projects Fund

This fund is used to account for the acquisition or construction of major capital facilities other than those financed by proprietary fund operations and special assessments.

Debt Service Fund

This fund is used to account for long-term debt transactions.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Library. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls. The Library 2005 tax roll millage rate was 1.6709 mills, and the taxable value was \$989,587,903.00.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building	50 years
Equipment	3-50 years

Compensated Absences (Vacation and Sick Leave)

The estimated current portion of the liability for vacation and sick leave benefits attributable to the Library's governmental funds is recorded as an expenditure and liability in the respective funds. Employees may accumulate up to one year's days of vacation leave and are not paid for unused sick leave upon termination of employment.

Post-employment Benefits

The Library provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Library Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Library Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Library Board.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Library Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Library Board has designated three banks for the deposit of Library funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Library's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>426 828 25</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	200 000 00
Uninsured and Uncollateralized	<u>226 828 25</u>
Total Deposits	<u>426 828 25</u>

The Library's investments are categorized below to give an indication of the level of risk assumed by the Library. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Library or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Library's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Library's name.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Note 3 – Deposits and Investments (continued)

The GASB Statement No. 3 risk disclosures for the Library's investments are categorized as follows:

<u>Investment Type</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
Risk-Categorized: Operating Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Risk-Categorized Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Nonrisk-Categorized: Financial Institution Pooled Funds				<u>7 614 269 36</u>
Total Investments				<u>7 614 269 36</u>

The financial institution pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

Note 4 – Capital Assets

Capital asset activity of the Library's Governmental activities for the current year was as follows:

	<u>Balance 10/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/09</u>
Land	29 533 00	791 406 04	-	820 939 04
Building	421 935 00	426 441 23	-	848 376 23
Equipment	<u>97 124 00</u>	<u>-</u>	<u>(4 216 00)</u>	<u>92 908 00</u>
Total	548 592 00	1 217 847 27	(4 216 00)	1 762 223 27
Accumulated Depreciation	<u>(119 196 60)</u>	<u>(12 505 00)</u>	<u>4 216 00</u>	<u>(127 485 60)</u>
Net Capital Assets	<u>429 395 40</u>	<u>1 205 342 27</u>	<u>-</u>	<u>1 634 737 67</u>

Note 5 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 10/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 9/30/06</u>
Bonds payable	-	7 835 000 00	175 000 00	7 660 000 00
Compensated absences	<u>11 494 68</u>	<u>1 049 90</u>	<u>-</u>	<u>12 544 58</u>
Total	<u>11 494 68</u>	<u>7 836 049 90</u>	<u>175 000 00</u>	<u>7 672 544 58</u>

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Note 6 – Bonds Payable

On November 17, 2005, the Library sold \$7,835,000.00 of its bonds to fund a new facility. The bond principal and interest is to be paid over a twenty year period. The bond principal outstanding as of September 30, 2006 was \$7,660,000.00.

<u>Payment Date</u>	<u>Interest Rate</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Payment</u>
11/1/06			\$148 939 38	\$148 939 68
5/1/07	3.750%	\$180 000 00	148 939 38	328 939 38
11/1/07			145 564 38	145 564 38
5/1/08	3.750	220 000 00	145 564 38	365 564 38
11/1/08			141 439 38	141 439 38
5/1/09	3.750	255 000 00	141 439 38	396 439 38
11/1/09			136 658 13	136 658 13
5/1/10	3.750	295 000 00	136 658 13	431 658 13
11/1/10			131 126 88	131 126 88
5/1/11	3.750	310 000 00	131 126 88	441 126 88
11/1/11			125 314 38	125 314 38
5/1/12	3.750	325 000 00	125 314 38	450 314 38
11/1/12			119 220 63	119 220 63
5/1/13	3.800	345 000 00	119 220 63	464 220 63
11/1/13			112 665 63	112 665 63
5/1/14	3.800	360 000 00	112 665 63	472 665 63
11/1/14			105 825 63	105 825 63
5/1/15	3.800	380 000 00	105 825 63	485 825 63
11/1/15			98 605 63	98 605 63
5/1/16	3.800	400 000 00	98 605 63	498 605 63
11/1/16			91 005 63	91 005 63
5/1/17	3.800	420 000 00	91 005 63	511 005 63
11/1/17			83 025 63	83 025 63
5/1/18	3.800	440 000 00	83 025 63	523 025 63
11/1/18			74 665 63	74 665 63
5/1/19	3.875	465 000 00	74 665 63	539 665 63
11/1/19			65 656 25	65 656 25
5/1/20	3.900	485 000 00	65 656 25	550 656 25
11/1/20			56 198 75	56 198 75
5/1/21	3.950	510 000 00	56 198 75	566 198 75
11/1/21			46 126 25	46 126 25
5/1/22	4.000	535 000 00	46 126 25	581 126 25
11/1/22			35 426 25	35 426 25
5/1/23	4.050	565 000 00	35 426 25	600 426 25
11/1/23			23 985 00	23 985 00
5/1/24	4.100	585 000 00	23 985 00	608 985 00
11/1/24			11 992 50	11 992 50
5/1/25	4.100	585 000 00	11 992 50	11 992 50
11/1/25				
		<u>\$7 660 000 00</u>	<u>\$3 506 883 75</u>	<u>\$11 166 883 75</u>

Note 7 – Deferred Compensation Plan

The Library matches one half of the cost of an annuity of each full-time employee's gross wages up to a maximum of 5%. The total amount paid by the Library during the fiscal year ended September 30, 2006, was \$5,005.48.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Note 8 – Pension Plan

The Library does not have a pension plan.

Note 9 – Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Library has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	410 793 00	1 062 994 00	1 110 863 21	47 869 21
State aid	12 278 00	12 278 00	11 669 28	(608 72)
Penal fines	25 500 00	25 500 00	36 081 00	10 581 00
Interest	4 773 00	4 773 00	35 991 14	31 218 14
Miscellaneous	<u>23 131 00</u>	<u>23 131 00</u>	<u>32 921 53</u>	<u>9 790 53</u>
Total revenues	<u>476 475 00</u>	<u>1 128 676 00</u>	<u>1 227 526 16</u>	<u>98 850 16</u>
Expenditures:				
Culture and recreation:				
Library	<u>465 853 00</u>	<u>521 232 00</u>	<u>467 345 07</u>	<u>(53 886 93)</u>
Total expenditures	<u>465 853 00</u>	<u>521 232 00</u>	<u>467 345 07</u>	<u>(53 886 93)</u>
Excess (deficiency) of revenues over expenditures	10 622 00	607 444 00	760 181 09	152 737 09
Fund balance, October 1	<u>398 937 00</u>	<u>336 732 00</u>	<u>336 722 96</u>	<u>(9 04)</u>
Fund Balance, September 30	<u><u>409 559 00</u></u>	<u><u>944 176 00</u></u>	<u><u>1 096 904 05</u></u>	<u><u>152 728 05</u></u>

CAMPBELL, KUSTERER & CO., P.C.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

October 27, 2006

To the Library Board
Dexter District Library
Washtenaw County, Michigan

We have audited the financial statements of the Dexter District Library for the year ended September 30, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Dexter District Library in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

- To the Library Board
Dexter District Library
Washtenaw County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

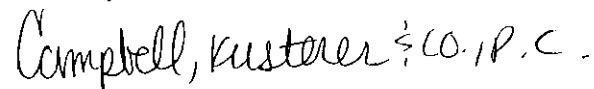
We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Library's financial statements and this communication of these matters does not affect our report on the Library's financial statements, dated September 30, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants